

Tax Credits Available to Consumers Through the Energy Policy Act of 2005

Signed by President Bush on August 8, 2005, the Energy Policy Act of 2005 (EPACT) offers consumers and businesses federal tax credits beginning in January 2006 for purchasing fuel-efficient hybrid-electric vehicles and energy-efficient appliances and products. **Most of these tax credits remain in effect through 2007.**

About Tax Credits

A tax credit is generally more valuable than an equivalent tax deduction because a tax credit reduces tax dollar-for-dollar, while a deduction only removes a percentage of the tax that is owed. Beginning in tax year 2006, consumers will be able to itemize purchases on their federal income tax form, which will lower the total amount of tax they owe the government.

Home Energy Efficiency Improvement Tax Credits

Consumers who purchase and install specific products, such as energy-efficient windows, insulation, doors, roofs, and heating and cooling equipment in the home can receive a tax credit of up to \$500 beginning in January 2006, for up to 10 percent of the actual cost.

- Up to \$500 on the amount they spend to upgrade thermostats, to caulk leaks, or to stop energy waste.
- Up to \$200 credit for installation of new exterior windows.
- Up to \$300 credit for purchases of a highly efficient central air conditioner, heat pump or water heater.
- Up to \$150 for installation of a highly efficient furnace or boiler.
- A new provision provides a 10% investment tax credit for expenditures on improvements to the building envelope.
 - Allows credits for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers and other qualified energy efficient equipment.

Tax Credits for Solar Property. The EPACT also provides a credit equal to 30% of qualifying expenditures for purchase of qualified photovoltaic property.

- Consumers can receive a tax credit of up to 30% of the cost, or up to \$2,000 for installing solar-powered hot-water systems used exclusively for purposes other than heating swimming pools and hot tubs.
- Consumers can also receive a tax credit for solar photovoltaics, similar to the solar hot water credits, with a \$2,000 limit.
- These two solar tax credits can be used together for a maximum of \$4,000.

Improvements must be installed in or on the taxpayer's principal residence in the United States. Home improvement tax credits apply for improvements made between January 1, 2006 and December 31, 2007.

The IRS will determine final tax credit amounts. As more information becomes available, it can be found at:
<http://www.energy.gov>.

For more detailed information about federal tax incentives for consumers, businesses, builders and manufacturers and others, visit the Tax Incentives Assistance Project at www.energytaxincentives.org, or contact the Alabama Department of Economic and Community Affairs' Energy, Weatherization and Technology Division at (800) 392-8098.

Automobile Tax Credits

Individuals and businesses who buy or lease a new hybrid gas-electric car or truck are eligible for, and can receive, an income tax credit of \$250-\$3,400 – depending on the fuel economy and the weight of the vehicle. Hybrid vehicles that use less gasoline than the average vehicle of similar weight *and* that meet an emissions standard qualify for the credit. “Lean-burn” diesel vehicles could also qualify, but currently available diesel vehicles do not meet the emissions standard. There is a similar credit for alternative-fuel vehicles and for fuel-cell vehicles.

- The energy bill extends an existing tax credit, for as much as \$4,000, for buyers of electric cars or those powered by rechargeable batteries.
- Hybrid-car buyers and advanced lean-burn technology vehicles will be eligible for tax credits ranging from \$1,700-\$3,000. This credit has two components: hybrids that save the most fuel compared with 2002 models, and the vehicle’s estimated lifetime fuel savings.
- Credits are offered for cars and light trucks that are more fuel-efficient than 2002 models.
- Examples of available vehicle tax credits – does not include all qualified models:

The American Council for an Energy Efficient Economy (ACEEE) Estimates of Light-Duty Vehicle Tax Credits – Updated February 2006

Current Models

Make	Model	Fuel Type	Vehicle Class	Adjusted City MPG	Fuel Saved(gal)	Emissions Pass/Fail	Total Credit
Chevrolet/GMC	Silverado/Sierra (2wd)a	Hybrid	Pickup	18	1,393	Pass	\$250
Chevrolet/GMC	Silverado/Sierra (4wd)a	Hybrid	Pickup	17	1,622	Pass	\$650
Ford	Escape Hybrid (2wd)	Hybrid	SUV	36	3,155	Pass	\$2,600
Ford	Escape Hybrid (4wd)	Hybrid	SUV	33	2,907	Pass	\$1,950
Honda	Accord Hybrid	Hybrid	Car	25	1,697	Pass	\$650
Honda	Civic Hybrid	Hybrid	Car	49	2,348	Pass	\$2,100
Honda	Insight (auto)	Hybrid	Car	57	1,498	Pass	\$1,450
Lexus	RX 400h (2wd)	Hybrid	SUV	33	3,557	Pass	\$2,600
Mercury	Mariner Hybrid	Hybrid	SUV	33	2,907	Pass	\$1,950
Toyota	Highlander Hybrid (2wd)	Hybrid	SUV	33	3,557	Pass	\$2,600
Toyota	Prius	Hybrid	Car	60	2,744	Pass	\$3,150

Upcoming Models c

Make	Model	Fuel Type	Vehicle Class	Adjusted City MPG	Fuel Saved(gal)	Emissions Pass/Fail	Total Credit b
Chevrolet	Malibu	Hybrid	Car	27	1,372	Pass	\$650
Chevrolet/GMC	Silverado/Sierra '08	Hybrid	Pickup	20	2,053	Pass	\$900
Lexus	GS 450h	Hybrid	Car	28	2,190	Pass	\$1,300
Nissan	Altima	Hybrid	Car	32	1,956	Pass	\$1,300
Saturn	VUE Green Line	Hybrid	SUV	27	2,186	Pass	\$1,300
Toyota	Camry Hybrid	Hybrid	Car	43	2,810	Pass	\$2,350

Notes:

Last updated February 23, 2006

a. Tax credit estimates assume "maximum power" requirements are met

b. Criteria for alternative fuel vehicle tax credits are different from criteria for hybrid and diesel credits

c. Specifications and credits for these vehicles are estimated based on currently available information

Tax credits are for vehicles “placed in service” beginning January 1, 2006. Consumers can receive the tax credit if they arranged to purchase the vehicle in 2005 as long as they did not take possession of the vehicle until January 1, 2006.

Tax Credits and Deductions Available to Businesses Through the Energy Policy Act of 2005

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Business Tax Credits

Businesses are eligible for tax credits for buying hybrid vehicles, for building energy-efficient buildings, and for improving the energy efficiency of commercial buildings (as outlined in the Energy Policy Act of 2005).

Biodiesel/Alternative Fuels

Small producer biodiesel and ethanol credit. This credit will benefit small agri-biodiesel producers by giving them a 10 cent per gallon tax credit for up to 15 million gallons of agri-biodiesel produced. In addition, the limit on production capacity for small ethanol producers increased from 30 million to 60 million gallons. This is effective until the end of 2008.

Credit for installing alternative fuel refueling property. Fueling stations are eligible to claim a 30% credit for the cost of installing clean-fuel vehicle refueling equipment, (e.g. E85 ethanol pumping stations). Under the provision, a clean fuel is any fuel that consists of at least 85% ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen and any mixture of diesel fuel and biodiesel containing at least 20% biodiesel. This is effective through December 31, 2010.

Buildings

Credit for business installation of qualified fuel cells, stationary microturbine power plants, and solar equipment. This provides a 30% tax credit for the purchase price for installing qualified fuel cell power plants for businesses, a 10% credit for qualifying stationary microturbine power plants and a 30% credit for qualifying solar energy equipment. This is effective January 1, 2006 through December 31, 2007.

Business credit of energy-efficient new homes. This provides tax credits to eligible contractors for the construction of a qualified new energy-efficient home. Credit applies to manufactured homes meeting Energy Star criteria and other homes, saving 50% of the energy compared to the EPACT standard. This is effective January 1, 2006 through December 31, 2007.

Energy-efficient Commercial building deduction. This provision allows a tax deduction for energy-efficient commercial buildings that reduce annual energy and power consumption by 50% compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) 2001 standard. The deduction would equal the cost of energy-efficient property installed during construction, with a maximum deduction of \$1.80 per square foot of the building. Additionally, a partial deduction of 60 cents per square foot would be provided for building subsystems.

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